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News Release

Immediate release

Ottawa, February 18, 2003
2003-010

BUDGET 2003 SUPPORTS SOCIAL AND ECONOMIC AGENDA WHILE MAINTAINING BALANCED BUDGETS

Significant investments in health care, families, research and development, learning and Canada's military, tax reductions to encourage saving and investment, and new measures to make government spending more accountable are the key features of the budget, which was presented today by John Manley, Deputy Prime Minister and Minister of Finance.

The Government presents a balanced budget for this year—the sixth consecutive balanced budget—and for the next two fiscal years. It also restores the full annual Contingency Reserve and economic prudence.

“Keeping a balanced budget, cutting debt and getting the best value for money are a constant challenge and a constant imperative,” Minister Manley said. “They are the bedrock of our fiscal and economic strategy.”

The Government recognizes the critical link between social and economic policy and continues the Government's balanced approach to managing the nation's finances. This approach plays a critical role in building the Canada all Canadians want. It does so in three ways:

- by **building the society Canadians value** through investments in individual Canadians, their families and communities;
- by **building the economy Canadians need** by promoting productivity and innovation while staying fiscally prudent; and
- by **building the accountability Canadians deserve** by making government spending more transparent and accountable.

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Canada

Budget 2003 includes initiatives to strengthen Canada's publicly funded health care system. Building on the agreement reached earlier this month by Canada's first ministers, the budget confirms that the Government will increase its support for health care by \$34.8 billion over five years, as well as implement initiatives to improve the accountability of health care spending in Canada.

The budget also includes measures to support the needs of Canadian families and their communities, including increases to the National Child Benefit supplement of the Canada Child Tax Benefit and a new Child Disability Benefit to help low- and modest-income families with disabled children. As well, the budget expands employment insurance benefits to provide a six-week compassionate care leave for individuals to care for gravely ill or dying family members. A new 10-year program to fund local infrastructure projects and new monies will help combat homelessness in Canada's cities. To ensure Canada remains a voice for peace and progress in the world, Budget 2003 provides additional funding for Canada's military and increases our international aid commitments.

The budget boosts investments in the nation's research granting councils and provides more support for post-secondary students. This budget also sets aside significant resources to support the Government's climate change strategy. It invests in environment and agriculture, with measures to promote energy efficiency, renewable energy, sustainable transportation and new alternative fuels.

It encourages savings and investment by increasing registered retirement savings plan and registered pension plan limits and implements measures aimed at helping small and medium-sized businesses. The budget builds on Canada's competitive advantage by eliminating the federal capital tax over five years. It also improves the taxation of resource income in Canada by reducing the corporate tax rate of this sector to 21 per cent over five years while making changes to the tax structure of this key sector.

Following up on commitments made in last year's *Economic and Fiscal Update* and the Speech from the Throne, Budget 2003 implements measures to make government spending more accountable and transparent, while reallocating \$1 billion per year in spending from federal departments and agencies. It also commits the Government to ongoing reviews of its non-statutory program spending to ensure taxpayers' money is being spent effectively.

In this budget, and following the recommendations of the Auditor General of Canada, the Government is introducing full accrual accounting to provide a more comprehensive measure of its activities. Budget 2003 provides a reduction of the Air Travellers Security Charge to \$7 from \$12 each way for domestic flights—a reduction of more than 40 per cent. It also reduces employment insurance premium rates to \$1.98 from \$2.10 for 2004, and launches immediate consultations on a new mechanism for setting employment insurance premium rates for 2005 and beyond.

“Today we have taken serious steps forward in our quest to build the society that Canadians value, the economy Canadians need and the accountability Canadians deserve,” Minister Manley said.

Highlights of Budget 2003 are attached. Further information can be obtained by visiting the Department of Finance Web site at www.fin.gc.ca or by phoning 1 800 O-Canada (1 800 622-6232) or 1 800 465-7735 (TTY for the hearing impaired).

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Highlights of Budget 2003

Economic and Fiscal Prospects

Thanks to the efforts and sacrifices of Canadians, Canada is enjoying the benefits of a thriving economy. More than 560,000 new jobs were created last year and our nation led the Group of Seven (G7) in economic growth in 2002. Looking ahead, based on the average of private sector forecasts:

- Canada's economy is forecast to grow by 3.2 per cent in 2003—the highest rate of growth in the G7. It is expected to increase to 3.5 per cent in 2004;
- this outlook could be affected by a number of factors, including an uncertain economic recovery in the U.S., coupled with a possible international military conflict;
- federal debt (accumulated deficit) has been reduced by \$47.6 billion and the federal debt-to-GDP (gross domestic product) ratio declined to 46.5 per cent in 2001–02;
- this budget projects balanced budgets in 2002–03 and over the fiscal plan to 2004–05. These are backed up by the normal \$3-billion Contingency Reserve and economic prudence; and
- Canada is the only G7 country expected to record a surplus in 2002 and 2003.

Building the Society Canadians Value

Health Care

As a result of the agreement reached earlier this month by Canada's first ministers, federal support to health care will increase by \$34.8 billion over the next five years. This includes:

- a five-year, \$16-billion Health Reform Fund to the provinces and territories to target improved primary health care, home care and catastrophic drug coverage;
- \$9.5 billion in increased cash transfers to the provinces and territories;
- an immediate investment of \$2.5 billion through a Canada Health and Social Transfer supplement to relieve existing pressures;

- \$5.5 billion in health reform initiatives, including diagnostic/medical equipment and a six-week compassionate leave benefit under employment insurance; and
- \$1.3 billion to support health programming for First Nations.

Families and Communities

Budget 2003 makes major investments in Canadian families and communities, including:

- \$965 million annually in additional support through the National Child Benefit supplement of the Canada Child Tax Benefit (CCTB), bringing the maximum annual benefit for a first child to \$3,243 by 2007. This will be more than double the level of support in 1996;
- \$935 million over five years to help provinces, territories and First Nations to provide greater access to quality child care and early learning opportunities;
- \$50 million each year to create the Child Disability Benefit—a new \$1,600 supplement to the CCTB for low- and modest-income families with disabled children;
- \$135 million each year for three years to continue to combat homelessness in Canada's cities, for a total of \$405 million over three years;
- \$320 million over five years to enhance existing affordable housing agreements with the provinces and territories;
- \$256 million over two years to extend the Government's housing renovation program; and
- \$3 billion in additional support for infrastructure development over the next 10 years.

Canada's Role in the World

Budget 2003 recognizes the need for Canada to continue playing a positive role in global affairs and commits significant new resources to the military, border security and international aid. Among the highlights:

- an ongoing increase of \$800 million for Canadian military capabilities plus an immediate allocation of \$270 million to address urgent needs;

- a reduction of the Air Travellers Security Charge to \$7 from \$12 each way for domestic flights. This is a reduction of more than 40 per cent;
- an additional \$75 million over the next two years for the Security Contingency Reserve to enable the Government to help respond to unforeseen security needs, including border security; and
- \$1.4 billion over this and the next two fiscal years to boost Canada's aid to poor countries—an increase of 8 per cent annually.

Building the Economy Canadians Need

Innovation and Skills

Budget 2003 invests \$2 billion to create a smarter, more innovative Canada, including:

- \$105 million annually to create the new Canada Graduate Scholarships program to provide financial support for 2,000 master's and 2,000 Ph.D. students at Canadian universities when fully phased in;
- \$125 million annually, beginning 2003–04, to increase the budgets of Canada's three research granting councils;
- \$225 million annually, beginning in 2003–04, to help offset the indirect costs of research at universities, colleges and research hospitals; and
- \$500 million this year to the Canada Foundation for Innovation to improve buildings and other infrastructure in research hospitals.

Improving the Tax System

Budget 2003 provides further improvements to the tax system and enhanced incentives for Canadians to work, save and invest, including:

- increasing annual assistance for children in low-income families through the Canada Child Tax Benefit to \$10 billion by 2007—with benefits of \$3,243 for the first child, \$3,016 for the second and \$3,020 for each additional child. This is more than double the support in 1996;
- raising registered retirement savings plan and registered pension plan contribution limits to \$18,000 over four years and indexing these new limits;

- supporting small business and entrepreneurs through a number of tax changes, including a 50-per-cent increase in the small business deduction limit to \$300,000 over four years;
- eliminating the general federal capital tax over the next five years, with medium-sized businesses benefiting first; and
- improving the taxation of resource income in Canada by reducing the corporate tax rate of the sector to 21 per cent over the next five years while making changes to the tax structure of this key sector.

Sustainable Development

Budget 2003 commits \$3 billion to key environmental initiatives, including:

- \$2 billion over five years to help implement the Government of Canada's Climate Change Plan for Canada, including measures to encourage new environmental technologies and funding for initiatives ranging from renewable energy to alternative fuels, where areas such as building retrofits, wind power, fuel cells and ethanol will be considered; and
- \$1 billion for targeted measures, including improving air quality, supporting the clean-up of contaminated sites, protecting species at risk, and creating new national parks and marine conservation areas. This also includes \$600 million over five years to upgrade water and sewer systems on First Nations' reserves.

Building the Accountability Canadians Deserve

Budget 2003 demonstrates the Government's commitment to manage taxpayers' dollars wisely and to be more accountable to taxpayers for how it manages their money. To achieve this goal, the Government will:

- reduce employment insurance premium rates to \$1.98 from \$2.10 for 2004;
- launch immediate consultations on a new mechanism for setting employment insurance premium rates for 2005 and beyond;
- make government financial statements more comprehensive and transparent by presenting them on a full accrual basis of accounting;

- require departments and agencies to reallocate a total of \$1 billion per year from their budgets, starting in 2003–04, to help fund the cost of new initiatives announced in this budget;
- launch an ongoing review of all non-statutory programs over a five-year cycle to ensure that they continue to be relevant, effective and affordable; and
- improve the accountability to Parliament of arm’s-length foundations created by the Government.